

Message Text

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PAGE 01 BRASIL 05337 301559Z

73

ACTION EB-07

INFO OCT-01 ARA-06 IO-10 ISO-00 AGR-05 AID-05 CIAE-00

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FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC 94

INFO AMCONSUL RIO DE JANEIRO

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USMISSION GENEVA

LIMITED OFFICIAL USE BRASILIA 5337

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TAGS: ETRD, EAGR, BR

SUBJECT: SUGAR HEARINGS

REF: STATE 141876

1. FOLLOWING IS RESPONSE TO QUESTIONS POSED PARA 2 REFTEL
ON BRAZILIAN SUGAR:

A - CURRENT COST OF PRODUCTION (CENTS/LBS.)

WE DO NOT HAVE UP-TO-DATE COST OF PRODUCTION STATISTICS.
THERE IS QUITE A BIT OF DEBATE HERE IN BRAZIL ABOUT WHAT THE
COSTS OF PRODUCTION ARE. THE IAA HAS CONTRACTED WITH THE
GETULIO VARGAS FOUNDATION (FGV) TO MAKE SOME STUDIES ABOUT
THE COST OF PRODUCTION. THESE ARE NOT YET AVAILABLE. THE
PRICES AUTHORIZED BY THE IAA FOR SUGAR AT MILL GATE, PLACE
ON VEHICLE ARE CR\$62.87 PER 60 KG. BAG (US 6.0 CENTS/LB.) IN THE
CENTER-SOUTH (65.7 PERCENT OF AUTHORIZED PRODUCTION AND 51.7
PERCENT OF AUTHORIZED EXPORTS), AND CR\$69.80 PER 60 KG. BAG
(US 6.6 CENTS/OB.) IN THE NORTH-NORTHEAST REGION. AFTER PAYMENT
OF TAXES, THE COST TO THE BUYER, INCLUDING TAXES, RISES TO
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PAGE 02 BRASIL 05337 301559Z

CF\$78.82 (7.5CENTS/LB.) AND CR\$79.75 (7.6CENTS/LB.) FOR THE TWO

REGIONS.

THESE PRICES ARE FOR THE HARVEST YEAR BEGINNING JUNE 1, 1975 IN THE CENTER-SOUTH REGION AND SEPTEMBER 1, 1975 IN THE NORTH-NORTHEAST REGION. SOME PRODUCER ORGANIZATIONS CLAIM THAT THESE PRICES DO NOT MEET PRODUCTION COSTS. IT IS OUR OPINION THAT, BEFORE TAXES, PRICES ARE SOMEWHERE NEAR ACTUAL AVERAGE PRODUCTION COSTS. FOR FURTHER DETAILS SEE BB-5026 OF JUNE 4, 1975.

NOTE: EXCHANGE RATE OF CR\$7.925 PER US\$1.00 USED.

B. CURRENT RETAIL PRICE FOR REFINED SUGAR CR\$2/KG. (US 11.4 CENTS/LB.)

C. UNIT VALUE FOR SUGAR EXPORTS IN 1974

AVERAGE UNIT VALUE FOR RAW (DEMERARA) AND CRYSTAL SUGAR EXPORTS COMBINED WAS US 25.4CENTS/LB. --- UNIT VALUE FOR RAW SUGAR WAS US 25.1CENTS/LB. --- UNIT VALUE FOR CRYSTAL SUGAR WAS US26.4CENTS/LB. NO OFFICIAL DATA AVAILABLE FOR SMALL AMOUNT OF REFINED SUGAR EXPORTED.

D. THE IAA ESTIMATES THAT RAW SUGAR PRODUCTION CAPACITY WILL REACH 9.9MILLION METRIC TONS BY 1980. ASSUMING THAT PRODUCTION INCREASES AT AN ARITHMETICAL RATE BETWEEN 1975 AND 1980, AND THAT CONSUMPTION INCREASES AT 4 PERCENT PER YEAR, ANNUAL PRODUCTION CAPACITY AND EXPORT POTENTIAL BETWEEN 1975 AND 1980 (YEARS BEGINNING JUNE 1) WILL BE (IN MILLIONS OF METRIC TONS):

YEAR	PRODUCTION	EXPORTS
1975	7.7	3.3
1976	8.2	3.8
1977	8.6	4.1
1978	9.0	4.3
1979	9.5	4.6
1980	9.9	4.8

E. SPECIFIC INVESTMENTS PLANNED OR UNDERWAY TO EXPAND THE PRODUCTION CAPACITY BETWEEN NOW AND 1980

WE HAVE NO INFORMATION PERTAINING TO INVESTMENT PLANS FOR SPECIFIC SUGAR MILLS. HOWEVER, THE IAA HAS TWO BASIC PLANS WHOSE GOAL IS TO REACH A PRODUCTIVE CAPACITY OF 9.9 MILLION METRIC TONS OF RAW SUGAR BY 1980.

THE PLAN FOR MERGING, MODERNIZING, AND RELOCATING SUGAR MILLS HAS CREATED A MORE EFFICIENT INDUSTRY WITH GREATER LIMITED OFFICIAL USE

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PAGE 03 BRASIL 05337 301559Z

PRODUCTIVE CAPACITY. THE NUMBER OF SMALLER, INEFFICIENT MILLS IS BEING REDUCED RAPIDLY. THERE ARE 220 MILLS THAT WILL GRIND CANE FROM THE 1975/76 CROP, COMPARED TO 260 IN 1970/71. TWO HUNDRED MILLION DOLLARS WERE SPENT DURING THE FIRST 18 MONTHS OF THE PROGRAM.

THE SECOND PLAN, THE NATIONAL PROGRAM FOR THE IMPROVEMENT OF SUGAR CANE (PLANALSUGAR), HAS THE OBJECTIVE OF CREATING NEW, HIGHER YIELDING VARIETIES OF SUGAR CANE.

PLANALSUGAR IS A SEVEN YEAR PROGRAM AND IS FINANCED WITH
US\$12MILLION FROM IAA'S SPECIAL EXPORT FUND.

AVERAGE PRODUCTION IS CURRENTLY IN THE NEIGHBORHOOD
OF 5 MT/HECTARE WITH EXTRACTION RATES OF 9.4 PERCENT IN
THE CENTER-SOUTH AND 9 PERCENT IN THE NORTH-NORTHEAST.
THE IAA HOPES TO BRING PRODUCTION UP TO 70 MT/HECTARE. WE
MAY EXPECT BRAZIL TO DEVELOP INTO A MORE EFFICIENT PRODUCER
BY MEANS OF BETTER CULTIVATION METHODS, BETTER PROCESSING
TECHNIQUES AND IMPROVED FAR MANAGEMENT.

F. ESTIMATED RATE OF DOMESTIC CONSUMPTION

THE FGV ESTIMATES SUGAR CONSUMPTION GROWTH RATE AT
4 PERCENT PER YEAR BETWEEN 1975 AND 1980. THIS IS IN LINE
WITH HISTORICAL CONSUMPTION TRENDS AND WE CONCUR.

G. LONG TERM EXPORT COMMITMENTS

BRAZIL HAS CONCLUDED A FIVE YEAR AGREEMENT WITH CHINA
FOR 200,000 MT/YEAR AND A THREE YEAR AGREEMENT WITH PORTUGAL
FOR 100,000 MT/YEAR. THESE AGREEMENTS WERE APPARENTLY
INITIATED DURING THE 1974/75 HARVEST YEAR. NO FIXED PRICES
WERE ESTABLISHED IN THESE AGREEMENTS.

FOREIGN MINISTRY OFFICIALS HAVE COMMENTED TO THE EMBASSY
THAT GOB PREFERENCE IN NEGOTIATING LONG TERM CONTRACTS IS
FOR PRICE PROVISION THAT ALLOWS ADJUSTMENTS BASED ON WORLD
PRICE FOR EACH DELIVERY. BRAZIL DESIRES TO EXPAND SUGAR
SALES TO OIL PRODUCING COUNTRIES AND THERE HAVE BEEN MANY
REPORTS OF GOB DISCUSSIONS WITH ARAB COUNTRIES AND IRAN FOR
POSSIBLE SUGAR FOR OIL DEALS.

DIRECTOR OF IAA EXPORT DIVISION RECENTLY TOLD CONGEN RIO
OFFICER THAT BRAZIL'S SUGAR EXPORT POLICY CONTINUES TO BE
BASED ON COMBINATION OF LONG TERM AND SPOT SALES, WITH RATIO
OF 60 PERCENT LONG TERM AND 40 PERCENT SPOT. IAA OFFICIAL
SAID HE DID NOT THINK SHIFT TOWARD LONG TERM AGREEMENTS
WOULD BE IN BRAZIL'S INTEREST BECAUSE THIS WOULD REDUCE
THEIR ABILITY TO INFLUENCE WORLD PRICES. SEE BRASILIA
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PAGE 04 BRASIL 05337 301559Z

990 FOR FOREIGN MINISTRY COMMENTS ON LONG TERM SALES TO
THE US.)

H. EXTENT OF GOVERNMENT PARTICIPATION, REGULATION OR OTHER
DIRECT INTERVENTION IN PRODUCTION, DOMESTIC MARKETING,
PRICING AND EXPORTS OF SUGAR. REFERENCES BBATPPW JANUARY
20, 1975 - PAGE 24.

THE IAA, AN AUTONOMOUS INSTITUTION OPERATING UNDER THE
SUPERVISION OF THE MINISTRY OF INDUSTRY AND COMMERCE (MIC),
CONTROLS THE AMOUNT OF SUGAR (MILLED SUGAR, NOT CANE) THAT
CAN BE PRODUCED, DETERMINES HOW MUCH CAN BE EXPORTED, AND
SETS THE PRICE FOR SUGAR AT MILL GATE. SUGAR MILLS MUST
AGREE TO BUY 50 PERCENT OF MILLING CAPACITY FROM OUTSIDE
GROWERS, NOT UNDER CONTRACT OR FULLY CONTRACTED BY MILLS.
EXPORTABLE SUGAR RECEIVES STORAGE FINANCING THROUGH THE
BANK OF BRAZIL (GOVERNMENT CONTROLLED ENTITY) UNTIL IT CAN

BE EXPORTED. THE IAA ANNOUNCES PRODUCTION AND EXPORT
QUOTAS, BY STATE, AND PRICES TO BE PAID AT THE BEGINNING
OF EACH HARVEST YEAR. THE IAA IS THE EXCLUSIVE EXPORTER
OF BRAZILIAN SUGAR. THROUGH ITS SUGAR ALCOHOL PROGRAM, IT
HAS A SAFETY VALVE IN CASE OF GLUTS ON THE NATIONAL OR
INTERNATIONAL MARKET.
CRIMMINS

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